



CITY OF OMER  
Arenac County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> City of Omer	<b>County</b> Arenac
<b>Audit Date</b> March 31, 2005	<b>Opinion Date</b> July 22, 2005	<b>Date Accountant Report Submitted to State:</b> September 25, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

CITY OF OMER  
Arenac County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## INDEPENDENT AUDITOR'S REPORT

July 22, 2005

To the City Council  
City of Omer  
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Omer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the City of Omer, Arenac County, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated July 22, 2005, on our consideration of the City's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

CITY OF OMER  
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the City of Omer covers the City's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$458,024.30 for governmental activities and \$378,517.57 for business activities. Overall total capital assets remained approximately the same.

Overall revenues were \$173,474.81 from governmental activities and \$67,339.73 from business-type activities. Governmental activities had a \$15,805.21 decrease in net assets. Business-type activities had a decrease in net assets of \$1,754.95.

Taxable value decreased by approximately \$11,191.48.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the City and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the City in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the City as a whole using accounting methods used by private companies. The statement of net assets includes all of the City's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the City are reported as governmental activities and business-type activities. These include the General Fund, Major Street Fund, Local Street Fund, Services Fund, Water Fund and the Current Tax Collection Fund.

CITY OF OMER  
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

Governmental Funds: Some of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include the General Fund, Major Street Fund, Local Street Fund, and the Services Fund.

Business-Type Funds: The City has a Water Fund which includes the activity of providing water to City residents.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Our cash position in both the governmental and business-type activities remains strong.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The General Fund had a decrease in fund balance of \$22,614.61. The Major Street Fund had an increase in fund balance of \$6,244.75. The Local Street Fund had a decrease in fund balance of \$4,548.57. The Services Fund had a decrease in fund balance of \$1,109.95.

The Water Fund had a decrease in net assets of \$1,754.95.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The City's governmental activities invested \$12,000.00 in capital assets.

The City's business-type activities invested \$0 in capital assets.

The City's governmental activities paid \$0 of principal on long-term debt.

The City's business-type activities paid \$5,000.00 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact the City Clerk or City Treasurer at 989-653-2566.

CITY OF OMER  
Arenac County, Michigan

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
March 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	260 881 15	57 704 83	318 585 98
Taxes receivable	10 555 06	-	10 555 06
Accounts receivable	-	3 762 45	3 762 45
Due from State of Michigan	6 117 09	-	6 117 09
Total Current Assets	<u>277 553 30</u>	<u>61 467 28</u>	<u>339 020 58</u>
NON-CURRENT ASSETS:			
Capital Assets	223 436 00	852 990 50	1 076 426 50
Less: Accumulated Depreciation	<u>(42 965 00)</u>	<u>(195 037 21)</u>	<u>(238 002 21)</u>
Total Non-current Assets	<u>180 471 00</u>	<u>657 953 29</u>	<u>838 424 29</u>
TOTAL ASSETS	<u><u>458 024 30</u></u>	<u><u>719 420 57</u></u>	<u><u>1 177 444 87</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	-	8 903 00	8 903 00
Total Current Liabilities	<u>-</u>	<u>8 903 00</u>	<u>8 903 00</u>
NON-CURRENT LIABILITIES:			
Bonds payable	-	332 000 00	332 000 00
Total Non-current Liabilities	<u>-</u>	<u>332 000 00</u>	<u>332 000 00</u>
Total Liabilities	<u>-</u>	<u>340 903 00</u>	<u>340 903 00</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	180 471 00	325 953 29	506 424 29
Unrestricted	<u>277 553 30</u>	<u>52 564 28</u>	<u>330 117 58</u>
Total Net Assets	<u>458 024 30</u>	<u>378 517 57</u>	<u>836 541 87</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>458 024 30</u></u>	<u><u>719 420 57</u></u>	<u><u>1 177 444 87</u></u>

The accompanying notes are an integral part of these financial statements.



CITY OF OMER  
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>  <u>Charges for Services</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
General government	102 644 80	19 666 59	(82 978 21)
Public safety	13 878 00	-	(13 878 00)
Public works	<u>67 757 22</u>	<u>14 725 00</u>	<u>(53 032 22)</u>
Total Governmental Activities	<u>184 280 02</u>	<u>34 391 59</u>	<u>(149 888 43)</u>
Business-Type Activities:			
Water	59 775 55	67 339 73	-
Interest on long-term debt	<u>15 165 38</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>74 940 93</u>	<u>67 339 73</u>	<u>-</u>
Total Government	<u>259 220 95</u>	<u>101 731 32</u>	<u>(149 888 43)</u>
General Revenues:			
Property taxes			56 831 38
State revenue sharing			74 362 43
Interest			2 084 32
Miscellaneous			5 805 09
Transfers			<u>(5 000 00)</u>
Total General Revenues			<u>134 083 22</u>
Change in net assets			(15 805 21)
Net assets, beginning of year			<u>473 829 51</u>
Net Assets, End of Year			<u>458 024 30</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(82 978 21)
-	(13 878 00)
-	(53 032 22)
-	(149 888 43)
7 564 18	7 564 18
(15 165 38)	(15 165 38)
(7 601 20)	(7 601 20)
(7 601 20)	(157 489 63)
-	56 831 38
-	74 362 43
846 25	2 930 57
-	5 805 09
5 000 00	-
5 846 25	139 929 47
(1 754 95)	(17 560 16)
380 272 52	854 102 03
378 517 57	836 541 87

CITY OF OMER  
Arenac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Funds</u>
<u>Assets</u>				
Cash in bank	154 688 42	58 430 55	30 242 01	17 163 91
Taxes receivable	8 275 06	-	-	2 280 00
Due from State of Michigan	-	3 722 06	2 395 03	-
Due from other funds	<u>356 26</u>	<u>-</u>	<u>753 11</u>	<u>-</u>
Total Assets	<u>163 319 74</u>	<u>62 152 61</u>	<u>33 390 15</u>	<u>19 443 91</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	<u>-</u>	<u>753 11</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>753 11</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>163 319 74</u>	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>
Total fund equity	<u>163 319 74</u>	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>
Total Liabilities and Fund Equity	<u>163 319 74</u>	<u>62 152 61</u>	<u>33 390 15</u>	<u>19 443 91</u>

The accompanying notes are an integral part of these financial statements.

Total

260 524 89  
10 555 06  
6 117 09  
1 109 37

278 306 41

753 11  
753 11

277 553 30  
277 553 30

278 306 41

CITY OF OMER  
Arenac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	277 553 30
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	223 436 00
Accumulated depreciation	<u>(42 965 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>458 024 30</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER  
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Other Funds</u>
Revenues:				
Property taxes	56 831 38	-	-	-
State revenue sharing	40 236 97	20 784 30	13 341 16	-
Charges for services:				
PTAF	1 897 19	-	-	-
Other	17 769 40	-	-	-
Interest	1 558 93	295 47	138 62	91 30
Special assessments	-	-	-	14 725 00
Miscellaneous	<u>5 028 62</u>	<u>-</u>	<u>776 47</u>	<u>-</u>
Total revenues	<u>123 322 49</u>	<u>21 079 77</u>	<u>14 256 25</u>	<u>14 816 30</u>
Expenditures:				
General government	100 077 80	-	-	-
Public safety	13 878 00	-	-	-
Public works	14 981 30	9 638 95	24 000 89	15 926 08
Capital outlay	<u>12 000 00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>140 937 10</u>	<u>9 638 95</u>	<u>24 000 89</u>	<u>15 926 08</u>
Excess (deficiency) of revenues over expenditures	<u>(17 614 61)</u>	<u>11 440 82</u>	<u>(9 744 64)</u>	<u>(1 109 78)</u>
Other financing sources (uses):				
Operating transfers in	-	-	5 196 07	-
Operating transfers out	<u>(5 000 00)</u>	<u>(5 196 07)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(5 000 00)</u>	<u>(5 196 07)</u>	<u>5 196 07</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(22 614 61)	6 244 75	(4 548 57)	(1 109 78)
Fund balances, April 1	<u>185 934 35</u>	<u>55 154 75</u>	<u>37 938 72</u>	<u>20 553 69</u>
Fund Balances, March 31	<u><u>163 319 74</u></u>	<u><u>61 399 50</u></u>	<u><u>33 390 15</u></u>	<u><u>19 443 91</u></u>

The accompanying notes are an integral part of these financial statements.

Total

56 831 38  
74 362 43

1 897 19  
17 769 40  
2 084 32  
14 725 00  
5 805 09

173 474 81

100 077 80  
13 878 00  
64 547 22  
12 000 00

190 503 02

(17 028 21)

5 196 07  
(10 196 07)  
(5 000 00)

(22 028 21)

299 581 51

277 553 30

CITY OF OMER  
Arenac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (22 028 21)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(5 777 00)
Capital Outlay	<u>12 000 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (15 805 21)

The accompanying notes are an integral part of these financial statements.



CITY OF OMER  
Arenac County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS  
March 31, 2005

	<u>Total (Water)</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	57 704 83
Accounts receivable	<u>3 762 45</u>
Total Current Assets	<u>61 467 28</u>
NON-CURRENT ASSETS:	
Capital Assets	852 990 50
Less: Accumulated Depreciation	<u>(195 037 21)</u>
Total Non-current Assets	<u>657 953 29</u>
TOTAL ASSETS	<u><u>719 420 57</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>8 903 00</u>
Total Current Liabilities	<u>8 903 00</u>
NON-CURRENT LIABILITIES:	
Bonds payable	<u>332 000 00</u>
Total Non-current Liabilities	<u>332 000 00</u>
Total Liabilities	<u>340 903 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	325 953 29
Unrestricted	<u>52 564 28</u>
Total Net Assets	<u>378 517 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>719 420 57</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER  
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
BUSINESS-TYPE FUNDS  
Year ended March 31, 2005

	<u>Total (Water)</u>
OPERATING REVENUES:	
Charges for services	57 617 73
Miscellaneous	<u>9 722 00</u>
Total Operating Revenues	<u>67 339 73</u>
OPERATING EXPENSES:	
Wages	17 369 57
Benefits	1 078 53
Supplies	2 532 67
Water purchases	8 794 66
Insurance	320 32
Utilities	5 018 98
Repairs and maintenance	2 412 23
Miscellaneous	<u>5 291 24</u>
Total Operating Expenses	<u>42 818 20</u>
Operating Income (loss) before depreciation	24 521 53
Less: depreciation	<u>(16 957 35)</u>
Operating income (loss)	<u>7 564 18</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	846 25
Transfers in	5 000 00
Interest expense	<u>(15 165 38)</u>
Total Non-operating Expenses	<u>(9 319 13)</u>
Change in net assets	(1 754 95)
Net assets, beginning of year	<u>380 272 52</u>
Net Assets, End of Year	<u><u>378 517 57</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER  
Arenac County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS  
Year ended March 31, 2005

	<u>Total (Water)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	67 107 23
Cash payments to suppliers for goods and services	(25 334 63)
Cash payments to employees for services	<u>(17 369 57)</u>
Net cash provided (used) by operating activities	<u>24 403 03</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds	(5 000 00)
Interest paid on bonds	<u>(15 165 38)</u>
Net cash provided (used) by capital and related financing activities	<u>(20 165 38)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfers from other funds	<u>5 000 00</u>
Net cash provided (used) by non-capital and related financing activities	<u>5 000 00</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>846 25</u>
Net cash provided (used) by investing activities	<u>846 25</u>
Net increase in cash	10 083 90
Cash beginning of year	<u>47 620 93</u>
Cash End of Year	<u><u>57 704 83</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	7 564 18
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	16 957 35
Increase (decrease) in receivables	(232 50)
Increase (decrease) in payables	<u>114 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>24 403 03</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Omer, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the City contain all the City funds that are controlled by or dependent on the City's executive or legislative branches.

The reporting entity is the City of Omer. The City is governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the City as the primary government.

Joint Venture

The City is a member of the Omer-Arenac Fire Board. The City appoints two members to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Fire Board at 2234 Sterling Road in Omer, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

This fund is used to account for assets held as an agent for others.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the City. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on February 14. The 2004 tax roll millage rate was 13.2411 mills, and the taxable value was \$4,292,148.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the City as assets with an initial cost of more than \$2,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	10-25 years
Furniture and equipment	5-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The City provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Accounting Change

Effective April 1, 2004, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the City's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$180,471.00.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the City Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the City Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the City Council during the fiscal year.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The City's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>331 366 73</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>235 355 81</u>
Total Deposits	<u>335 355 81</u>

The City of Omer did not have any investments as of March 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the City's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	161 500 00	-	-	161 500 00
Buildings	38 836 00	-	-	38 836 00
Equipment	<u>11 100 00</u>	<u>12 000 00</u>	<u>-</u>	<u>23 100 00</u>
Total	211 436 00	12 000 00	-	223 436 00
Accumulated Depreciation	<u>(37 188 00)</u>	<u>(5 777 00)</u>	<u>-</u>	<u>(42 965 00)</u>
Net Governmental Capital Assets	<u>174 248 00</u>	<u>6 223 00</u>	<u>-</u>	<u>180 471 00</u>



CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 4 – Capital Assets (continued)

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Business-Type Activities:</u>				
Water Systems	852 990 50	-	-	852 990 50
Accumulated Depreciation	<u>(178 079 86)</u>	<u>(16 957 35)</u>	-	<u>(195 037 21)</u>
Net Business-Type Capital Assets	<u>674 910 64</u>	<u>(16 957 35)</u>	-	<u>657 953 29</u>

Note 5 – Deferred Compensation Plan

The City does not have a deferred compensation plan.

Note 6 – Pension Plan

The City does not have a pension plan.

Note 7 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/05</u>
Water Bonds Payable	<u>337 000 00</u>	-	<u>5 000 00</u>	<u>332 000 00</u>

Note 8 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	356 26	Current Tax Collection	356 26
Local Street	<u>753 11</u>	Major Street	<u>753 11</u>
Total	<u>1 109 37</u>	Total	<u>1 109 37</u>

Note 9 – Water Revenue Bonds

On March 12, 1997, the City sold water revenue bonds, series A in the amount of \$277,000.00 and series B in the amount of \$90,000.00. The bond proceeds were used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.5% per annum are recorded in the Water Fund. As of March 31, 2005, the principal balance of the bonds outstanding was \$332,000.00.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 9 – Water Revenue Bonds (continued)

<u>Due April 1</u>	<u>Principal Amount</u>
2006	5 000 00
2007	5 000 00
2008	5 000 00
2009	5 000 00
2010	7 000 00
2011	7 000 00
2012	7 000 00
2013	7 000 00
2014	7 000 00
2015	8 000 00
2016	8 000 00
2017	8 000 00
2018	8 000 00
2019	9 000 00
2020	9 000 00
2021	9 000 00
2022	11 000 00
2023	11 000 00
2024	11 000 00
2025	12 000 00
2026	12 000 00
2027	12 000 00
2028	13 000 00
2029	14 000 00
2030	16 000 00
2031	16 000 00
2032	17 000 00
2033	17 000 00
2034	18 000 00
2035	19 000 00
2036	19 000 00
Total	<u>332 000 00</u>

Note 10 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Building Permits

The City of Omer does not issue building permits. Building permits are issued by the County of Arenac.

CITY OF OMER  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 12 – Interfund Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Water	5 000 00	General	5 000 00
Local Street	<u>5 196 07</u>	Major Street	<u>5 196 07</u>
Total	<u>10 196 07</u>	Total	<u>10 196 07</u>

CITY OF OMER  
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE -- GENERAL FUND  
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	10 000 00	11 990 00	56 831 38	44 841 38
State revenue sharing	40 000 00	20 000 00	40 236 97	20 236 97
Charges for services:				
PTAF	1 400 00	1 400 00	1 897 19	497 19
Other	8 400 00	10 900 00	17 769 40	6 869 40
Interest	1 703 00	8 602 00	1 558 93	(7 043 07)
Miscellaneous	2 545 00	4 620 00	5 028 62	408 62
Total revenues	64 048 00	57 512 00	123 322 49	65 810 49
Expenditures:				
General government	95 375 00	102 563 00	100 077 80	(2 485 20)
Public safety	14 250 00	14 250 00	13 878 00	(372 00)
Public works	15 960 00	15 960 00	14 981 30	(978 70)
Capital outlay	12 000 00	12 000 00	12 000 00	-
Total expenditures	137 585 00	144 773 00	140 937 10	(3 835 90)
Excess (deficiency) of revenues over expenditures	(73 537 00)	(87 261 00)	(17 614 61)	69 646 39
Other financing sources (uses):				
Operating transfers out	-	-	(5 000 00)	(5 000 00)
Total other financing sources (uses)	-	-	(5 000 00)	(5 000 00)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(73 537 00)	(87 261 00)	(22 614 61)	64 646 39
Fund balance, April 1	147 478 00	147 478 00	185 934 35	38 456 35
Fund Balance, March 31	73 941 00	60 217 00	163 319 74	103 102 74

CITY OF OMER  
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND  
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	21 575 00	21 575 00	20 784 30	(790 70)
Interest	450 00	450 00	295 47	(154 53)
Total revenues	22 025 00	22 025 00	21 079 77	(945 23)
Expenditures:				
Public works:				
Highways and streets	26 685 00	26 685 00	9 638 95	(17 046 05)
Total expenditures	26 685 00	26 685 00	9 638 95	(17 046 05)
Excess (deficiency) of revenues over expenditures	(4 660 00)	(4 660 00)	11 440 82	16 100 82
Other financing sources (uses):				
Operating transfers out	-	-	(5 196 07)	(5 196 07)
Total other financing sources (uses)	-	-	(5 196 07)	(5 196 07)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(4 660 00)	(4 660 00)	6 244 75	10 904 75
Fund balance, April 1	52 157 00	52 157 00	55 154 75	2 997 75
Fund Balance, March 31	47 497 00	47 497 00	61 399 50	13 902 50

CITY OF OMER  
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND  
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	14 200 00	14 200 00	13 341 16	(858 84)
Interest	150 00	150 00	138 62	(11 38)
Miscellaneous	100 00	100 00	776 47	676 47
Total revenues	14 450 00	14 450 00	14 256 25	(193 75)
Expenditures:				
Public works:				
Highways and streets	24 931 00	24 931 00	24 000 89	(930 11)
Total expenditures	24 931 00	24 931 00	24 000 89	(930 11)
Excess (deficiency) of revenues over expenditures	(10 481 00)	(10 481 00)	(9 744 64)	736 36
Other financing sources (uses):				
Operating transfers in	-	-	5 196 07	5 196 07
Total other financing sources (uses)	-	-	5 196 07	5 196 07
Excess (deficiency) of revenues and other sources over expenditures and other uses	(10 481 00)	(10 481 00)	(4 548 57)	5 932 43
Fund balance, April 1	34 389 00	34 389 00	37 938 72	3 549 72
Fund Balance, March 31	23 908 00	23 908 00	33 390 15	9 482 15

CITY OF OMER  
Arenac County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
March 31, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Services</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	58 430 55	30 242 01	17 163 91	105 836 47
Taxes receivable	-	-	2 280 00	2 280 00
Due from State of Michigan	3 722 06	2 395 03	-	6 117 09
Due from other funds	-	753 11	-	753 11
Total Assets	<u>62 152 61</u>	<u>33 390 15</u>	<u>19 443 91</u>	<u>114 986 67</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	753 11	-	-	753 11
Total liabilities	<u>753 11</u>	<u>-</u>	<u>-</u>	<u>753 11</u>
Fund balances:				
Unreserved:				
Undesignated	61 399 50	33 390 15	19 443 91	114 233 56
Total fund balances	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>	<u>114 233 56</u>
Total Liabilities and Fund Balances	<u>62 152 61</u>	<u>33 390 15</u>	<u>19 443 91</u>	<u>114 986 67</u>

CITY OF OMER  
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS  
Year ended March 31, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Services</u>	<u>Total</u>
Revenues:				
State revenue sharing	20 784 30	13 341 16	-	34 125 46
Interest	295 47	138 62	91 30	525 39
Special assessments	-	-	14 725 00	14 725 00
Miscellaneous	-	776 47	-	776 47
Total revenues	<u>21 079 77</u>	<u>14 256 25</u>	<u>14 816 30</u>	<u>50 152 32</u>
Expenditures – Public Works:				
Highways and streets	9 638 95	24 000 89	-	33 639 84
Sanitation	-	-	15 926 08	15 926 08
Total expenditures	<u>9 638 95</u>	<u>24 000 89</u>	<u>15 926 08</u>	<u>49 565 92</u>
Excess (deficiency) of revenues over expenditures	<u>11 440 82</u>	<u>(9 744 64)</u>	<u>(1 109 78)</u>	<u>586 40</u>
Other financing sources (uses):				
Operating transfers in	-	5 196 07	-	5 196 07
Operating transfers out	(5 196 07)	-	-	(5 196 07)
Total other financing sources (uses)	<u>(5 196 07)</u>	<u>5 196 07</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>6 244 75</u>	<u>(4 548 57)</u>	<u>(1 109 78)</u>	<u>586 40</u>
Fund balances, April 1	<u>55 154 75</u>	<u>37 938 72</u>	<u>20 553 69</u>	<u>113 647 16</u>
Fund Balances, March 31	<u>61 399 50</u>	<u>33 390 15</u>	<u>19 443 91</u>	<u>114 233 56</u>



CITY OF OMER  
Arenac County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2005

	<u>Balance</u> <u>4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/05</u>
<u>Assets</u>				
Cash in Bank	<u>59 256 80</u>	<u>179 289 65</u>	<u>225 409 44</u>	<u>13 137 01</u>
<u>Liabilities</u>				
Due to other funds	50 783 57	62 638 98	113 066 29	356 26
Due to others	<u>8 473 23</u>	<u>116 650 67</u>	<u>112 343 15</u>	<u>12 780 75</u>
Total Liabilities	<u>59 256 80</u>	<u>179 289 65</u>	<u>225 409 44</u>	<u>13 137 01</u>

CITY OF OMER  
Arenac County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year ended March 31, 2005

Cash in bank – beginning of year	<u>59 256 80</u>
Cash receipts:	
Property tax	179 026 54
Interest	<u>263 11</u>
Total cash receipts	<u>179 289 65</u>
Total beginning balance and cash receipts	<u>238 546 45</u>
Cash disbursements:	
City of Omer	113 516 29
Arenac County	52 358 50
Bay – Arenac Intermediate School District	17 821 28
Arenac Eastern School District	41 525 06
Refunds	<u>188 31</u>
Total cash disbursements	<u>225 409 44</u>
Cash in Bank – End of Year	<u>13 137 01</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 22, 2005

To the City Council  
City of Omer  
Arenac County, Michigan

We have audited the financial statements of the City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2005, and have issued our report thereon dated July 22, 2005. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As a part of obtaining reasonable assurance about whether City of Omer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of non-compliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Omer's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public records and its distribution is not limited.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 22, 2005

To the City Council  
City of Omer  
Arenac County, Michigan

We have audited the financial statements of the City of Omer for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of Omer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the City Council  
City of Omer  
Arenac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the City of Omer began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the City is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated March 31, 2005.

To the City Council  
City of Omer  
Arenac County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants